

**MINUTES OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON
May 16, 2003
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Karl Polen, Chairman, Arizona State Retirement System Board, called the meeting to order at 8:30 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call, Opening Remarks

Present: Mr. Karl Polen, Chairman
Mr. Norman Miller, Vice-Chairman
Ms. Charlotte Borchert
Mr. Jim Bruner
Mr. Carl Tenney
Mr. Steven Zeman
Dr. Keith Meredith
Mr. Lawrence Trachtenberg
Dr. Chuck Essigs

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the April 18, 2003, Regular Meeting of the ASRS Board

Motion: Mr. Norman Miller moved to approve the minutes of the April 18, 2003, regular meeting of the ASRS Board.

Dr. Chuck Essigs seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

3. Approval of Consent Schedule

Motion: Mr. Norman Miller moved to approve Refunds, Death Benefits, Retirements, System Transfers, and the Application and Agreement with Lakeside Fire District and Crown King Fire District.

Mr. Carl Tenney seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

The ASRS Board agreed to postpone approving the application and agreement for Maricopa Association of Governments (MAG) pending determination of eligibility by Mr. Tom McClory, Assistant Attorney General. Mr. McClory will have this determination completed prior to the next Board meeting on June 20, 2003.

Motion: Mr. Norman Miller moved to conditionally approve the application and agreement with MAG to join the System subject to a determination by our legal counsel that MAG has fully qualified to become a participant and a member of this System.

Mr. Carl Tenney seconded the motion.

By a vote of 2 in favor, 7 opposed, 0 abstentions, and 0 excused, the motion failed.

4. Presentation, Discussion and Appropriate Action Regarding the Legislative Update

Mr. Richard Stephenson, Deputy Director, External Affairs, provided an update pertaining to bill status. The following bills have been signed by the Governor:

SB 1037 – Contingent Annuitants Health Insurance Option (health insurance benefit to survivors)

HB 2024 – Service Purchase (defines “current annual salary;” provides for re-calculation of costs for purchase of military service and refund of overpayment)

HB 2023 – Unpaid Contributions (contributions not withheld, 15-year limit on employer responsibility for interest)

SB 1225 – Investment Management (technical name change)

The bill pertaining to the Deferred Retirement Option Plan (DROP) amendments (HB 2455) is currently awaiting the Governor’s signature.

The bill that exempts the ASRS from obtaining legal counsel only from the Attorney General’s office (SB 1226) has failed.

The following bills are awaiting final action by the Legislature:

SB 1224 – Defined Contribution Plan Amendments (ASRS Supplemental Retirement Savings Plan)

HB 2349 – Rural Health Insurance Subsidy (2-year continuation)

5. Director’s Report

Mr. Paul Matson, Director, pointed out a few minor changes to the Director’s Report. First, the property summary sheets pertaining to the 3300 Tower and the Broadway Proper buildings are

now located in the Investment section. Second, the Director Correspondence sheet contains both requests for information and negative correspondence received in the same column. Future reports will contain only the negative correspondence in that column.

Mr. Matson informed the Board that he has been working with Mercer regarding the governance study over the last three weeks. A timeline and a list of comparators will be e-mailed to the Board members.

6. Presentation, Discussion and Appropriate Action Regarding the ASRS Total Fund

Mr. Terry Dennison, Principal, Mercer Investment Consulting, presented an economic and market review and reported on the Total Fund for the period ending March 31, 2003.

	Quarter	1 Year	3 Years	5 Years	Inception
Total Fund	-2.9%	-15.3%	-8.6%	0.4%	10.4%
Benchmark*	-2.7	-14.2	-9.1	-0.7	8.2
RM Public Funds Median	-1.9	-12.0	-7.0	0.9	—

*1/1/89-12/31/91 is 60% S&P 500/40% LB Aggregate,
1/1/92-12/31/94 is 50% S&P 500/40% LB Aggregate/10% EAFE,
1/1/95-6/30/97 is 45% S&P 500/40% LB Aggregate/15% EAFE,
7/1/97-12/31/99 is 50% S&P 500/35% LB Aggregate/15% EAFE, and
1/1/00-Present is 53% S&P 500/30% LB Aggregate/17% EAFE.

7. Presentation, Discussion and Appropriate Action Regarding the Performance of Domestic Equity Large Cap Equity Managers for the Quarter Ending March 31, 2003

Mr. David Lissek, Principal, presented for Barclays Global Investors.

	Quarter	1 Year	3 Years	5 Years	Inception (*)
ASRS	-3.15	-24.72	-16.06	-4.17	9.04
S&P 500	-3.15	-24.76	-16.09	-4.20	9.03
Value Added	0.00	0.04	0.03	0.03	0.01

(*) 7/31/89

Mr. Michael Viteri, Portfolio Manager & Trader, Mr. Eric Rovelli, Assistant Portfolio Manager & Trader, presented on the ASRS' E1 and E2 portfolio.

	Quarter	1 Year	2 Years	3 Years	5 years	Inception (*)
E1	-3.25	-24.62	-13.01	-15.89	-3.96	6.67
S&P 500	-3.15	-24.76	-13.15	-16.09	-3.77	6.77
Value Added	-0.10	0.14	0.14	0.20	-0.19	-0.10

(*) 9/30/95

	Quarter	1 Year	2 Years	3 Years	5 years	Inception (*)
E2	-3.14	-24.70	-13.09	-16.03	-3.63	3.54
S&P 500	-3.15	-24.76	-13.15	-16.09	-3.77	3.39
Value Added	0.01	0.06	0.06	0.06	0.14	0.15

(*) 3/31/97

Mr. John Cone, CFA, President, Portfolio Manager, presented on behalf of Franklin Portfolio Associates.

	Inception (1/1/03)
ASRS	3.10
S&P 500	3.15
Value Added	0.5

Mr. Kenneth Berents, Managing Director, Senior Portfolio Manager, and Mr. Tom Straw, Vice President, Institutional Sales & Marketing, presented on behalf of Goldman Sachs Asset Management.

	Inception (1/1/03)
ASRS	-4.45
S&P/Barra Growth	-0.83
Value Added	-3.62

Ms. Jennifer Winfield, CFA, Senior Vice President, Client Relations, presented on behalf of Intech.

	Inception (1/1/03)
ASRS	-0.15
Benchmark	-0.83
Value Added	0.68

Mr. James Owens, Partner & Director of Client Services, and Mr. Rob Vishny, Founding Partner & Portfolio Manager, presented on behalf of LSV Asset Management.

	Inception (12/31/02)
ASRS	-6.0
S&P/Barra Value	-5.5
Value Added	-0.5

Ms. Susan R. Bonfeld, Principal, Client Service, and Ms. Jane R. Tisdale, Principal, Portfolio Manager, presented on behalf of State Street Global Advisors.

	Inception (1/1/03)
ASRS	-3.82
S&P/Barra Value	-5.51
Value Added	1.69

8. Board Requests for Agenda Items

Mr. Norman Miller asked if it was necessary for the next Board meeting to be held in Flagstaff as many of the Board members will be unable to attend in person. Additionally, there is very minimal attendance from the general public at the June Flagstaff meetings. Dr. Chuck Essigs suggested moving the date for a Flagstaff meeting to sometime during the fall when the ASRS might expect a better turn out. Ms. Charlotte Borchert stated that she is not against moving June's Board meeting to Phoenix, but stressed that it is important to reschedule a meeting for the Flagstaff location at a later date. Other Board members concurred.

The Board agreed to schedule the June Board meeting to take place in Phoenix. A meeting will be held in Flagstaff later this year.

9. Call to the Public

Mr. Michael Ullery stated that he has been attempting to appeal a determination of his benefits since November 2002. He has submitted his appeal to the Director and has since been denied. Mr. Ullery would like to receive clarification on the correct process in appealing this decision to the ASRS Board.

Mr. Polen suggested that he meet with the appropriate personnel to get his questions answered and to get his appeal processed. Mr. Matson suggested that Mr. Ullery meet with Terry Cusker, Assistant Director, Member Services Division.

10. The next ASRS Board meeting is scheduled for Friday, June 20, 2003, at 8:30 a.m. in the 10th Floor Board Room of the ASRS Offices at 3300 N. Central Avenue, Phoenix, AZ 85012

11. Adjournment of the ASRS Board.

Mr. Karl Polen, Chairman, adjourned the May 16, 2003, meeting of the ASRS Board at 11:30 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Marina Chaves, Secretary

Date

Paul Matson, Director

Date